# THE STATE OF THE SUPPLY CHAIN AND LOGISTICS INDUSTRY IN 2025

By John Manners-Bell, CEO of Ti and Founder of the Foundation for Future Supply Chain

February 2024

# THE STATE OF THE SUPPLY CHAIN AND LOGISTICS INDUSTRY IN 2025

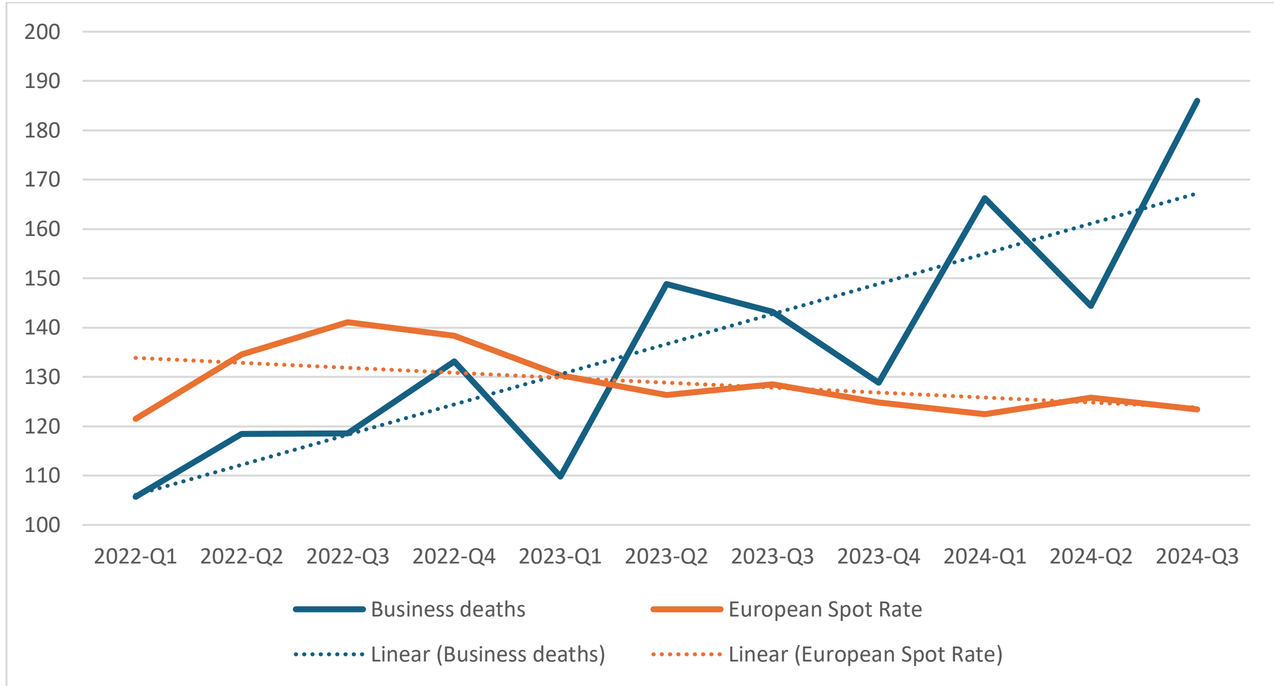
Some parts of the global logistics industry are being battered by stagnating economic growth, over capacity and bankruptcy, whilst others are experiencing much better fortunes. In this paper, John Manners-Bell reviews the market winners and losers as well as examining the impact of tariffs and the oil price on the industry as a whole.

## THE HEALTH OF THE LOGISTICS SECTOR

It is impossible to provide a 'one size fits all' assessment of the health of the global logistics industry due to the variance in the macro-economic environment and the dynamics and cycles of individual market sectors. For example, whilst the US is enjoying significant growth, manufacturing in the UK and European Union is stagnating, along with consumer confidence. In the emerging world, some countries are proving remarkably resilient, such as in the Gulf of Arabia, whilst others are struggling due to high global interest rates, 'risk-off' investment sentiment and a weak recovery from Covid. Official figures give little insight into the true state of affairs in China or the impact of its stimulus packages.

The road freight/trucking and the global shipping sectors provide good examples of the contrasting fortunes which can be identified within the industry. Looking first at the road freight market, figures taken from Eurostat show that the number of EU transport businesses ceasing to trade has risen steeply over the past five years to a ten year high. Research undertaken by Ti Insight in the past has shown that the financial health of the logistics sector is inextricably linked to two main factors: the cost of borrowing and economic growth. GDP in Europe has flatlined and interest rates have risen in an attempt by Central Banks to address inflation.

Figure 1. Transport and Storage business ‘deaths’

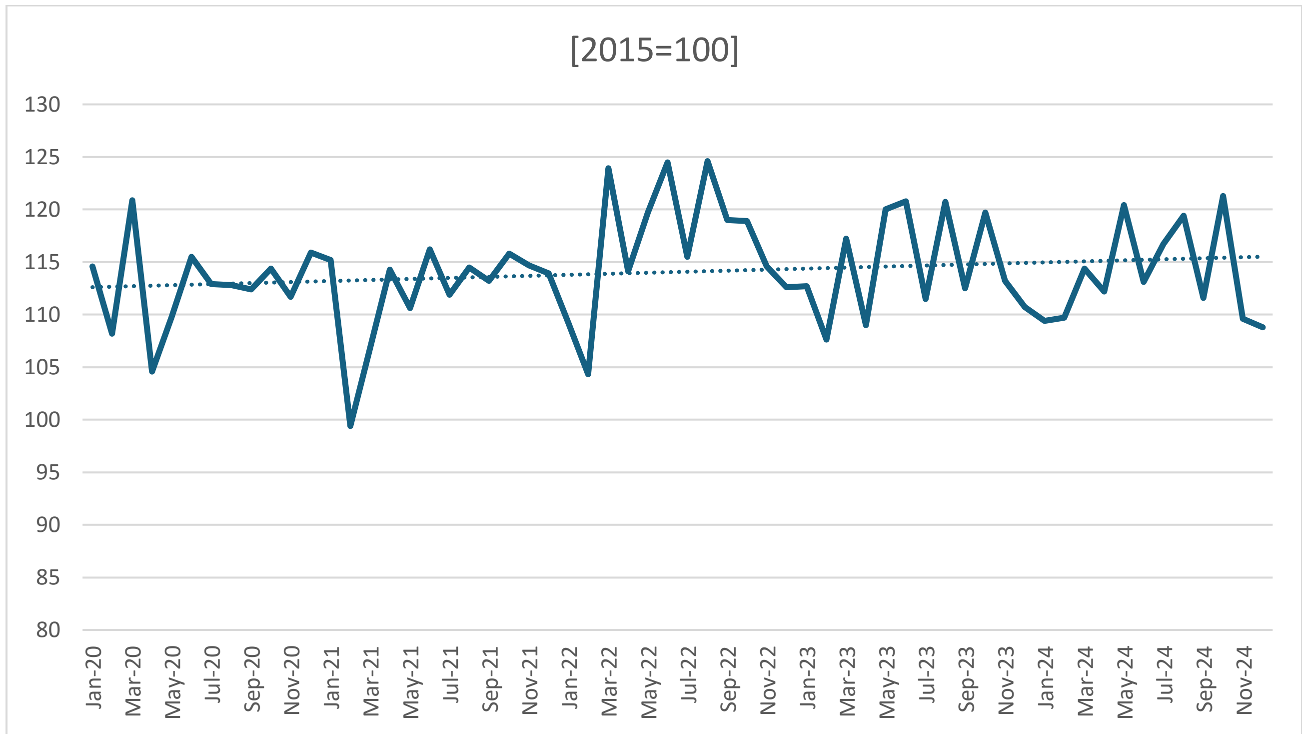



*Source: Ti Insight/Upply/Eurostat*

This is having a significant effect on the industry, not least in terms of the rates which freight companies can charge. As can be seen in Figure 1, European spot rates in the road freight sector (provided by Upply) have fallen from Q3 2022 onwards as a result of plentiful capacity and low demand (conditions created by economic stagnation). During this time, the number of businesses ceasing to trade has trended upwards as underlying costs have risen making for toxic operating conditions.

The US trucking market has also been in a bad place, although there are positive signs that it is moving out of what has been called ‘the Great Freight Recession’ which lasted, by some estimates, from the beginning of 2022 to the end of 2024. Specific sectoral trends, such as tightened licence regulations and President Trump’s promise to repatriate illegal immigrants, many of which work in the industry, is likely to reduce the number of drivers in the market resulting in higher rates due to lower capacity. These upward pressures will be potentially helped (or exacerbated, depending on your viewpoint) by President Trump’s plans to stimulate the US economy. Attempts to build up inventory by US importers will also provide a boost for trucking in the early part of the year, but this will be cancelled out by lower activity as retailers subsequently draw down stocks.

Figure 2. ATA Truck Tonnage Index

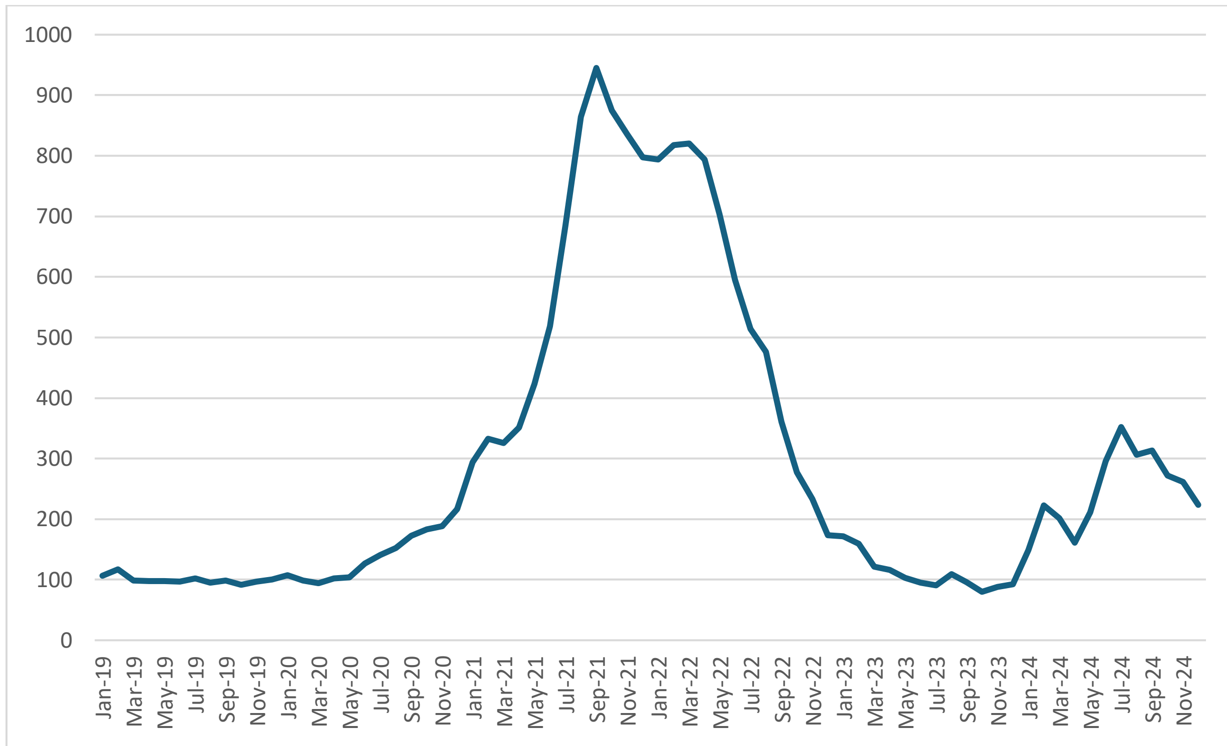



*Source: ATA*

As can be seen from data provided by the American Trucking Associations, volumes have only slightly trended upwards since 2020. It has been reported that 88,000 trucking operations and 8,000 freight brokers ceased business in 2023, partly as a result of increasing wages, fuel costs and insurance and partly due to stagnant demand. Many freight brokers, even large players such as well-backed tech play Convoy, could not cope with the shifting dynamics after the post-Covid boom and found their already thin margins eroded.

In contrast with road freight, the global shipping industry has enjoyed a bumper few years. Momentum seemed to have gone out of the industry after the boom enjoyed at the end of the Covid pandemic. However, disruption to routes transiting the Red Sea and Suez Canal by the Yemen-based Houthis resulted in significant capacity reductions. Many container ships were forced to divert around the Cape of Good Hope adding to transit times and effectively reducing the size of global fleet deployable.

Figure 3. Global Container Shipping Head Haul Rates Index




*Source: Ti Insight*

Figure 3 shows an index amalgamating the rates of the three primary trade lanes. The peaks caused by consumer behaviour during Covid and the Red Sea disruption can clearly be seen. If traffic patterns return to normal following the ceasefire in Gaza, further downward pressure on global rates is expected. This trend will be reinforced by President Trump's tariffs on goods imported by US shippers from China and Europe (see below). The excess capacity in the market caused by weak economic growth will impact on rates and hence on the shipping lines' profitability.

## THE IMPACT OF TARIFFS ON AIR AND SEA FREIGHT

Even before President Trump was elected for a second term in November 2024, his pronouncements on tariffs were closely watched. Famously saying that, 'tariff is the most beautiful word in the dictionary', since election he has imposed tariffs of 10% on Chinese goods, tightened 'de minimis' rules and threatened Canada, Mexico and Europe with further rises unless they agree to a range of political and economic demands. In the case of his two USMCA trade partners, these include stopping the flow of illegal immigrants and fentanyl, an addictive analgesic which is having a deadly effect on many parts of the USA. In the case of Europe, China and other countries, his demands are more focused on rebalancing trade deficits.

As one analyst put it, 'Tariffs are a tax. When you tax something you reduce demand.' This may be self-evident, but its impact on the global logistics industry will be profound. Shipping and air cargo volumes from China (and in the future, the European Union) destined for the USA will be depressed, as US importers seek alternative sources of goods, or re-shore production. There has already been a spike in demand in December as importers attempted to beat the imposition of tariffs. This is likely to be followed by a shipping volume downturn, at least until US retailers and manufacturers draw down their heightened levels of inventory. Only then can the true impact of tariffs be assessed. Chinese exporters or US importers may absorb the 10% additional costs, of course, or US consumers may be in a position to pay the extra, if passed on. At the same time as heightened tariffs, Trump has promised tax cuts and with the US economy doing so well, tariffs may just prove to be a minor headwind for growth. Alternatively, it could have a real impact on shipping and sourcing strategies with Chinese manufacturers off-shoring to South East Asian countries in order to avoid the tariffs and US importers adopting a range of 'China Plus' sourcing practices.

The decision to change de minimis rules is also likely to have implications for shippers and logistics service providers. In the past, individual items with a value of under $800 could be imported into the USA without the payment of any tariffs and with minimal levels of product information. This led to the development of Chinese online retailers such as Temu and Shein supplying the US market with cheap products, largely flown by air. According to the US Customs and Border Protection Agency (CBP) the number of shipments entering the United States claiming the de minimis exemption grew from approximately 140 million a year in 2015 to 1.3 billion in 2024. Trump's decision to exclude shipments from de minimis rules (if they are affected by Section 201, Section 232 or Section 301 tariffs, which applies to a large proportion of goods being imported from China) will mean that volumes will decrease significantly, especially as shippers will also be required to provide 10-digit HTSUS classification, a new layer of administration.

The lack of checks on goods entering the US has been blamed for the surge in fentanyl imports from China. According to the CBP, as of July 30, 2024, 89% of all cargo seizures in the previous nine months, were de minimis shipments. This included 97% of narcotics and 72% of health and safety seizures.

Whilst President Trump has made all the headlines, the overhaul of the system was initiated under the previous Biden administration and the changes have long been flagged. Online platforms have had plenty of time to prepare – Trump's order has just accelerated the timing by a few months. One scenario is that importers will return to a more traditional model of buying products in bulk, clearing them and then distributing them from US warehouses. Shippers will use more 3PLs for both the clearance and the storage of goods in the USA, including duty deferral schemes. This will see more pressure on US warehouse market. Temu apparently has already started onboarding Chinese sellers which have inventory held in US warehouses to its platform. This trend will pick up pace.

It is very difficult to say what the impact will be on air freight capacity. It has been reported that there have been 88 flights a day moving de minimis shipments into the USA. If the business model changes to that outlined above, there will be a move from air cargo to lower cost sea freight. In

addition, there may also be changes in US consumer buyer behaviour due to the higher costs, providing a headwind to cross border direct-to-consumer markets.

There is also momentum in the EU to reform de minimis rules and, in May 2023, the EC set out recommendations for removing the exemption completely. Although the threshold is much smaller than in the USA – €150 – the volumes are higher. The European trade commissioner, Maroš Šefčovič, claimed that 4 billion low value packages were imported in 2024 using de minimis exemptions on tariffs (three times the number of 2022). He said that the sheer weight of volumes was proving difficult for Customs to deal with, although it is not clear how removing the exemption will reduce workload as more administration will necessarily be involved. The research institute, Copenhagen Economics, estimated that increased administration would lead to an extra €2.3 billion in compliance costs, necessarily borne by e-commerce platforms, logistics processes and consumers. Suggested reforms to the European Customs' system could involve an administration fee being levied on e-commerce platforms for each package imported. As in the US, the changes may result in fulfilment of customer demand being undertaken from European warehouses, providing a boost to 3PLs and favouring traditional European Distribution Centre models using established duty deferment processes. However, the levy of a fee may run counter to World Trade Organisation rules and could result in legal action. More detail is expected in February 2025.

## WHAT TO EXPECT FROM THE PRICE OF OIL

The price of oil is fundamental to supply chain strategies and logistics profitability. Falling costs make long distance, international transport more affordable, favouring inter-continental movements of goods and underpinning far-sourcing strategies. A weaker oil price also provides a tailwind to the financial performance of shipping, freight forwarding, air cargo and logistics companies due to the lag between falling prices and passing on the benefits to their customers. Consequently, the dynamics of the fuel market are closely watched.

Historically, China's economic development has been one of the key factors supporting the price of oil. However, in the last few years a combination of weaker economic growth and its wholesale transition to electric vehicles has reduced much of the upward pressure on the price. China may even have reached peak oil demand.

The supply side has also created conditions for a weak market. Growth of output outside of OPEC meant that in 2024 there were fears of oversupply. However, in one of his last acts in his term of office, President Biden passed new sanctions on Russian shipping responsible for transporting oil, an intervention which immediately led to oil prices rising to $80 a barrel.

The new presidency in the US brings with it a new era of uncertainty in the market. President Trump has threatened the imposition of tariffs on all imports of goods into the USA and, if followed through, this would have immediate upward implications for the price of Canadian energy products. He has also said that he wishes to replenish the US strategic oil reserve, which would increase

pressures on supply. However, globally, tariffs are expected to be a drag on GDP growth which, in contrast, would provide for downward pressures. He has also stated his intention to 'drill, baby, drill' and export oil and gas to the rest of the world in a move which would certainly be-deflationary. The problem with this policy is that it relies on private sector companies to extract the oil, and they will only do this if the right economics exist. That is to say, if the global price is too low it is not in their interest to invest in the infrastructure needed to drill for more oil.

On top of this, the policies of the other major oil producers must be taken into account, Saudi Arabia being the most important. It is in the Saudis interest to maintain stability in the market, balancing the impact which the oil price has on economic growth and the revenues which can be made from pumping oil. Its Vision 2030 economic diversification strategy depends on a strong oil price and weakness in the market has already led to many projects being scaled back or abandoned. However, Saudi will be unwilling to rein back oil production further in order to sustain a higher price, as it has already lost significant market share by pursuing this policy. At the same time, there is the potential for other states to add more supply into the market, further weakening the price.

Given the political trends outlined above, it is easy to foresee the global oil price falling further in the coming months and years, despite the best efforts by OPEC members. A resolution to the conflict in Ukraine could see more Russian oil and gas on the market. Already Russia's exports of Liquid Natural Gas (LNG) to Europe have increased by 20% (2024) with shipments arriving at ports in Spain, Belgium and France from Siberia or by pipeline to Germany (accounting for perhaps around 9% of Germany's imports of LNG). This may indicate a weakening resolve to maintain a strong line with Russia. On top of this, a weak global economy (especially China) will reduce demand, a trend reinforced by the global transition to more electric vehicles. If the USA starts exporting more oil and gas, it is possible that oil prices will drop until it becomes uneconomic to pump oil. This would have a highly detrimental and potentially destabilising effect on the Middle Eastern economies but would provide economies in oil-poor regions (such as Europe) with an economic boost.

Low oil prices would also provide a headwind to the 'green transition'. If diesel and petrol engine vehicles become even more cost effective, fewer consumers or businesses will feel the need to invest in electric or hydrogen alternatives. Obviously, governments could increase duties which would reduce the gap, but given the political fall out and the weak economic environment, especially in Europe, many may resist such a move.

On the whole, it looks likely that the supply chain industry will enjoy low and falling energy prices for some time. Of course, this view must be tempered by the impact of geopolitical events.

There is no doubt that President Trump's will delay a transition to green energies, but many of the net zero targets which had been set by previous administrations were already looking unrealistic. Economic gloom and social upheaval have forced a new set of political priorities onto the agenda.

## CONCLUSION

The prospects for the coming year are very mixed for the logistics and supply chain industry. The US is leading the way in positive sentiment buoyed by the pro-growth policies of newly elected President Trump. However, his policies are only designed to help and protect the US economy (unsurprisingly) and this could spell trouble for USMCA partners Mexico and Canada, as well as other markets including China, and to a lesser extent Europe. The imposition of tariffs on imports will depress shipping volumes on the trans-Pacific and trans-Atlantic routes as well as regional cross-border trade.

European shippers will benefit from the normalisation of shipping through the Red Sea and Suez Canal. This will allow them to reduce the amount of inventory held on container ships which have been taking the longer route around the Cape of Good Hope. They will also benefit from lower shipping rates caused by the effective increase in capacity at a time of stagnating demand. Shipping lines, on the other hand, will see their margins impacted by the looser market conditions.

Helping both supply and demand-side will be the reduction in oil prices caused by President Trump's intention to increase output. If this combines with a solution to the Ukraine-Russian war, then there will be real downward pressure on all energy prices, although removing sanctions on Russian exports will take a long time to achieve.

GLOBAL SUPPLY CHAIN INTELLIGENCE:

- Market sizing, growth rates and 5 year ahead forecasts for key logistics markets and vertical sectors.
- Live coverage of key industry metrics and freight benchmarking data.
- Strategic company profiles and comparative analysis for key companies involved in the logistics industry.
- Coverage and analysis of developing trends across key logistics markets, sourcing locations, and vertical sectors.
- Extensive analysis of the latest public policy and its impact on global supply chain networks.

Find out more: www.gsci.ti-insight.com

# ABOUT TI

**Ti Insight is a leading logistics and supply chain market research and analysis company providing:**

- Supply Chain and Logistics Market Research Reports
- Global Supply Chain Intelligence (GSCi) online knowledge platform
- Consulting and Market Research projects
- Training, Conferences, and Webinars.
- Ti has acted as advisors to the World Economic Forum, World Bank, UN and European Commission as well as providing expert analysis to the world's leading manufacturers, retailers, banks, consultancies, shipping lines and logistics providers.

**Expertise includes:**

- Analysis of corporate strategies of leading express, freight forwarding and logistics companies.
- Global usage and perception studies of shipper and logistics provider behaviour.
- Micro-economic analysis of key logistics segments: express, freight forwarding, road freight, contract logistics, warehousing, air cargo, shipping and e-commerce logistics.
- Analysis of supply chain strategies employed in industry vertical sectors: pharmaceutical, fashion, high tech, oil and gas, consumer, chemical, cold chain, automotive and retail.
- Market sizing and forecasts of key logistics segments and vertical sectors.
- Intelligence on emerging markets logistics sectors in Asia, Africa, Latin America, Eastern Europe and Middle East.

**What Sets Ti apart?**

- Led by leading industry experienced experts
- Globally recognised and trusted brand
- Global Associate Network provides a multi-country, multi-disciplinary and multi-lingual extension to Ti's in-house capabilities
- More than fifteen years of knowledge delivery to global manufacturers, retailers, banks, consultancies, shipping lines and logistics providers
- Unique web-based intelligence portals
- On-going and comprehensive programmes of primary and secondary research.

For further information about Ti or any of its products and services, please contact Michael Clover, Head of Commercial Development: Email: mclover@ti-insight.com

## LICENCE AND COPYRIGHT

Ti reports contain copyrighted material. The user may not modify, publish, transmit, participate in the transfer or sale, create derivative works or in any way exploit, any of the content, in whole or in part. Except as otherwise expressly permitted under copyright law or these Terms, no copying, redistribution, retransmission, publication or commercial or non-commercial exploitation of downloaded material will be permitted without the express written permission of Company and the copyright owner.

You are permitted to print and download extracts from this report for your own private use on the following basis:

(a) no documents or related graphics are modified in any way;

(b) no graphics are used separately from accompanying text; and

(c) any of our copyright and trade mark notices and this permission notice appear in all copies.

You are permitted to use the documents which we supply to you for your own legitimate purposes. The documents (or access thereto) may not be sold or offered for sale to third parties, whether in whole or in part.